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**Technology, Energy & Communications  
Committee**

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**HB 1911**

**Brief Description:** Modifying the business and occupation tax rate on wholesalers of solar energy systems and including semiconductor materials.

**Sponsors:** Representatives Probst, Morris, Ericks, Jacks, Kelley, Conway and Orcutt.

**Brief Summary of Bill**

- Extends tax incentives to businesses that manufacture or sell at wholesale certain solar energy materials.

**Hearing Date:** 2/9/09

**Staff:** Kara Durbin (786-7133)

**Background:**

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the type of activities conducted. There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, and activities not classified elsewhere.

Preferential manufacturing B&O tax rates have been provided by the Legislature in recent years for aerospace, semiconductor microchips and materials, biodiesel fuel, aluminum smelting, solar energy systems, and timber/wood products.

Semiconductor cluster incentives

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

In 2003 the Legislature enacted a package of tax incentives for manufacturers of semiconductor materials, including silicon crystals, silicon ingots, raw polished wafers, compound semiconductors, integrated circuits, and microchips. These incentives were contingent upon an investment of at least \$1 billion in a semiconductor microchip fabrication facility in the state. This package includes: (1) a preferential B&O tax rate of 0.275 percent; (2) an exemption for gases and chemicals used in semiconductor manufacturing from retail sales and use tax; (3) an exemption for the construction of new semiconductor manufacturing buildings from retail sales and use tax; (4) a B&O tax credit of \$3,000 for each employment position in semiconductor manufacturing production; and (5) an exemption for machinery and equipment used in manufacturing semiconductor materials from property taxation. This contingency criterion was never met.

In 2006 another package of tax incentives was provided for manufacturers of certain semiconductor materials. These incentives were contingent upon an investment of at least \$350 million in new or expanded semiconductor manufacturing facilities in the state. This package includes: (1) a preferential B&O tax rate of 0.275 percent; and (2) an exemption from retail sales and use taxes on the acquisition of gases and chemicals used in the production of semiconductor materials. This contingency was met, and the reduced tax rate became effective on December 1, 2006.

#### Solar energy systems

In 2005 B&O tax rate reductions were provided for certain types of solar energy manufacturing. The B&O tax rate was lowered to 0.2904 percent for businesses that: (1) manufacture or sell at wholesale solar energy systems using photovoltaic modules; or (2) manufacture or sell at wholesale solar grade silicon to be used in the components of a solar energy system. Taxes paid in manufacturing these systems are granted as a B&O tax credit. These solar energy manufacturing tax provisions expire on June 30, 2014.

#### **Summary of Bill:**

Beginning October 1, 2009, the B&O tax for businesses that manufacture or sell at wholesale either: (1) solar energy systems using photovoltaic modules; or (2) solar grade silicon, silicon solar wafers, silicon solar cells, thin film solar devices, or compound semiconductor solar wafers to be used exclusively in the components of such systems, is set at a rate equal to the value of the product multiplied by 0.275 percent. This lower B&O tax rate expires on June 30, 2014.

An exemption from sales and use tax for the construction of new semiconductor manufacturing buildings is extended to silicon solar wafers, silicon solar cells, thin film solar devices, or compound semiconductor solar wafers. This exemption is contingent upon an investment of at least \$1 billion in a semiconductor microchip fabrication facility in the state, and it expires 12 years after the contingency is met.

An exemption from sales and use tax for gases and chemicals used in semiconductor manufacturing is extended to silicon solar wafers, silicon solar cells, thin film solar devices, or compound semiconductor solar wafers. This exemption expires on December 1, 2018.

**Appropriation:** None.

**Fiscal Note:** Requested on February 6, 2009.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed, except for Section 2, which is contingent upon an investment of at least \$1 billion in a semiconductor microchip fabrication facility in the state.